State of Montana
Revenue and Information Processing Center

Final Report

December 1996

Deloitte & Touche Consulting
Group

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Project Objectives

- Assess the current revenue and information processes and supporting mechanisms;

- Define and develop the concept of a centralized revenue and information processing center;

- Assess the feasibility of establishing a centralized revenue and information processing center; and,

- Prepare a business case and implementation plan.

Project Scope

- This project encompassed an assessment of the top revenue and information transaction driven agencies.

- The characteristics of revenue and information processing were studied within the agencies rather than specific details.

- The information gathered from interviews and visits to the top transaction processing agencies is assumed to represent a broad cross section of the State Government.

- Interviews were conducted with a range of personnel from bureau chiefs and department administrative officers, to mail and cashiering clerks.

Work Completed

- Conducted 27 Interviews in 13 State Departments
- Determined revenue processing transaction volumes and level of effort expended for each of the Departments
- Calculated a cost per revenue transaction for each Department interviewed
- Developed an understanding of Departmental concerns and requirements for a centralized revenue and information processing center
- Interviewed 4 other State Governments involved in innovative revenue and information processing activities
- Visited Montana Power Corporation to review their revenue processing and Call Center operations
- Conducted a visioning workshop with Department representatives to develop a vision for a centralized center
- Developed feasible alternatives for implementing a centralized service center and evaluated the alternatives against agreed upon criteria
- Identified the preferred option
- Developed a business case and an implementation plan for the preferred option

Opportunity Assessment

Opportunity Assessment

➢ Revenue Collected by the State

➢ Process Map

➢ Characteristics of Revenue Collection

➢ Process Characteristics

➢ Current Innovative Practices at the State

➢ What are the Problems ?

➢ Findings of Public Sector Research

➢ Findings of Private Sector Research

➢ Barriers to Implementation

➢ Readiness to Change

➢ Summary

Revenue Collected By The State
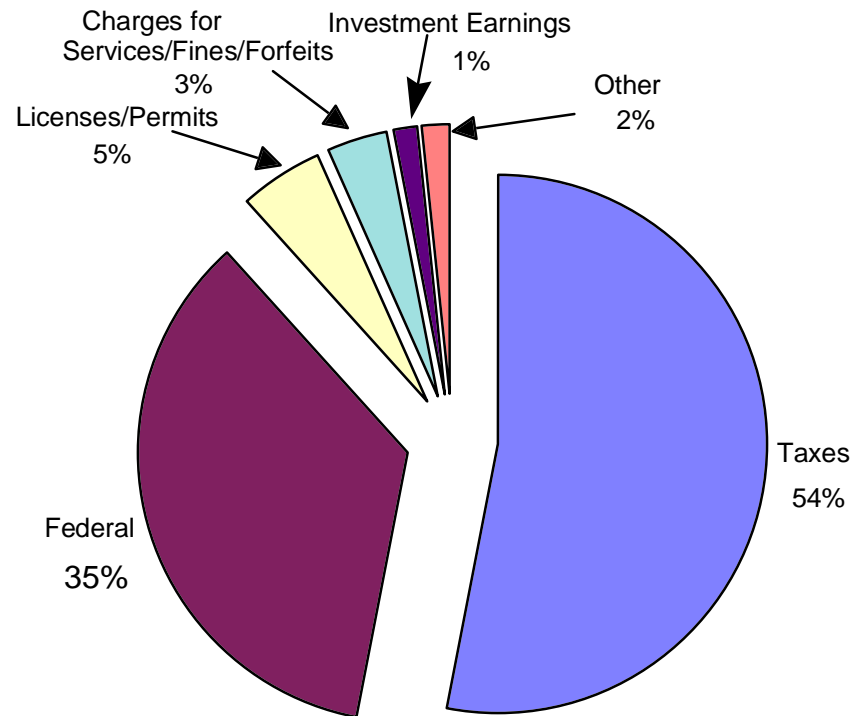
Taxes ($1.0 billion)

- high transaction volumes

- payment mainly by checks

- majority processed by Department of Revenue

Federal ($700 million)

- large $ volumes, few transactions

- mainly EFT and wire transfer

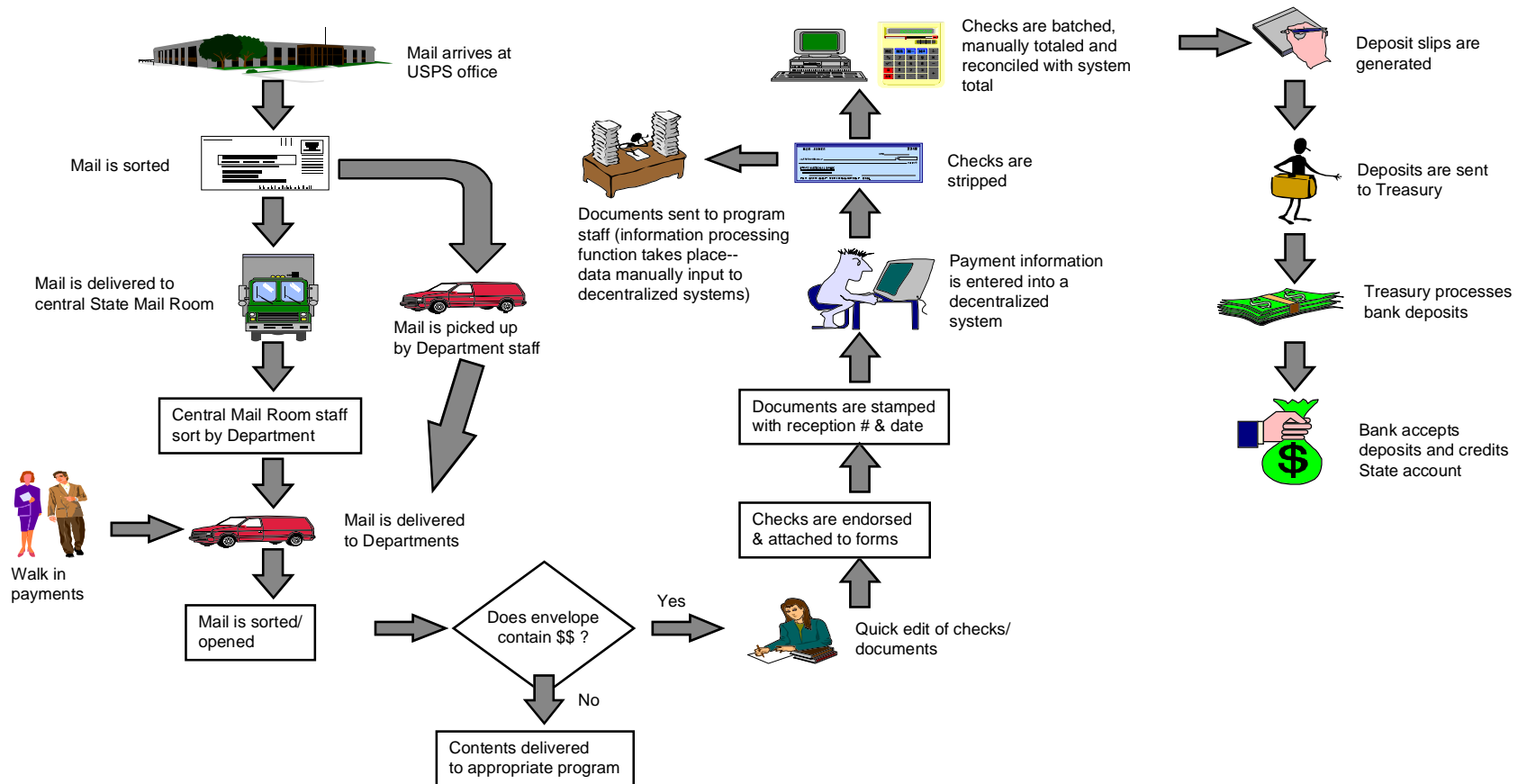**Other ($300 million)**

- e.g. licenses, fees, permits, fines

- small $ volumes, many transactions

- spread across many Departments

Charges for Services/Fines/Forfeits 3%

Investment Earnings 1%

Other 2%

Licenses/Permits 5%

Taxes 54%

Federal 35%

Total revenues collected in 1995: $2.03 billion.

Process Map

Mail arrives at USPS office

Mail is sorted

Mail is delivered to central State Mail Room

Mail is picked up by Department staff

Central Mail Room staff sort by Department

Walk in payments

Mail is delivered to Departments

Mail is sorted/opened

Does envelope contain $$?

Yes

No

Contents delivered to appropriate program

Quick edit of checks/documents

Checks are endorsed & attached to forms

Documents are stamped with reception # & date

Payment information is entered into a decentralized system

Documents sent to program staff (information processing function takes place-- data manually input to decentralized systems)

Checks are stripped

Checks are batched, manually totaled and reconciled with system total

Deposit slips are generated

Deposits are sent to Treasury

Treasury processes bank deposits

Bank accepts deposits and credits State account

This process takes approximately 1.5 days from receipt at central mail to bank deposit. As many as 6 or 7 State employees may handle a check before it is deposited into the bank.

Characteristics of Revenue Collection
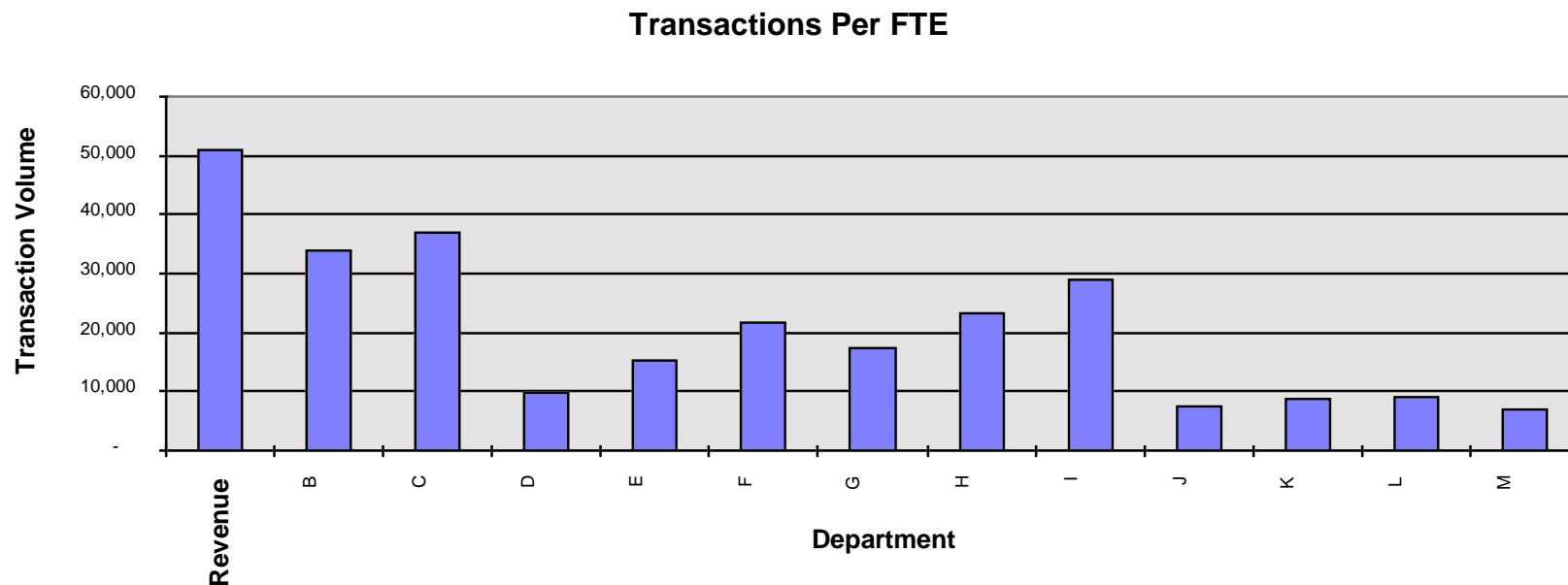
Transactions By Department
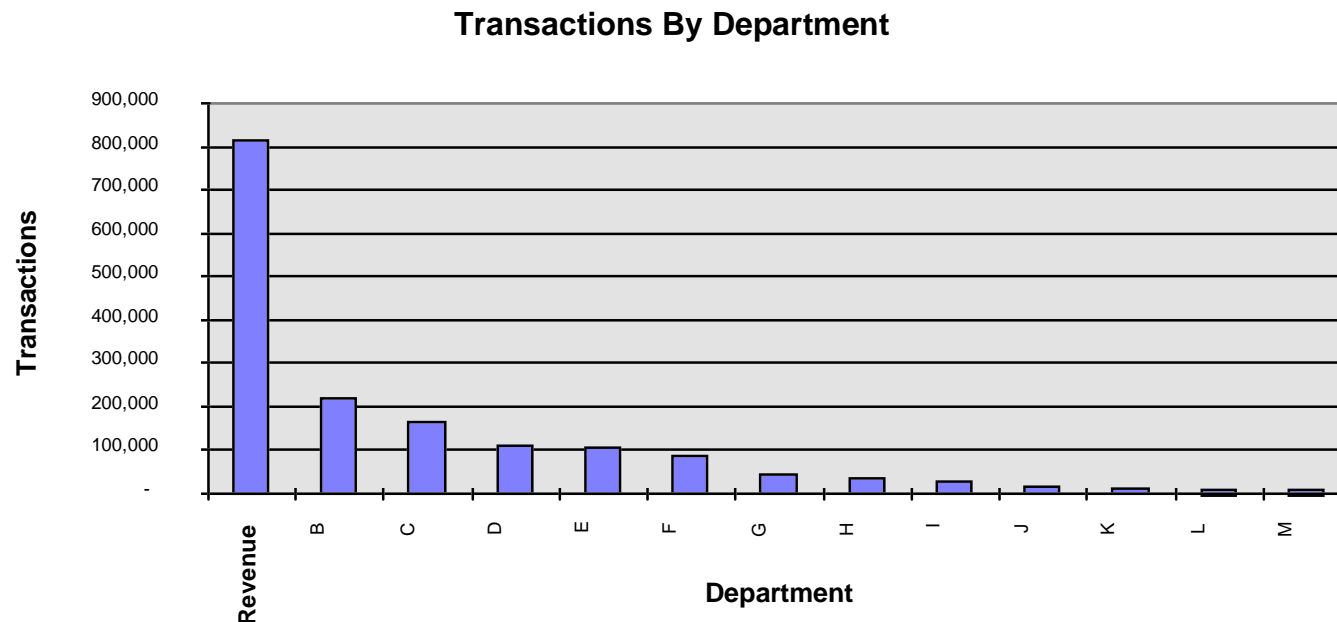
13 Departments each process 7000 or more revenue transactions per year. The Department of Revenue accounts for 50% of the total.

Characteristics of Revenue Collection cont'd

FTE's Per Department
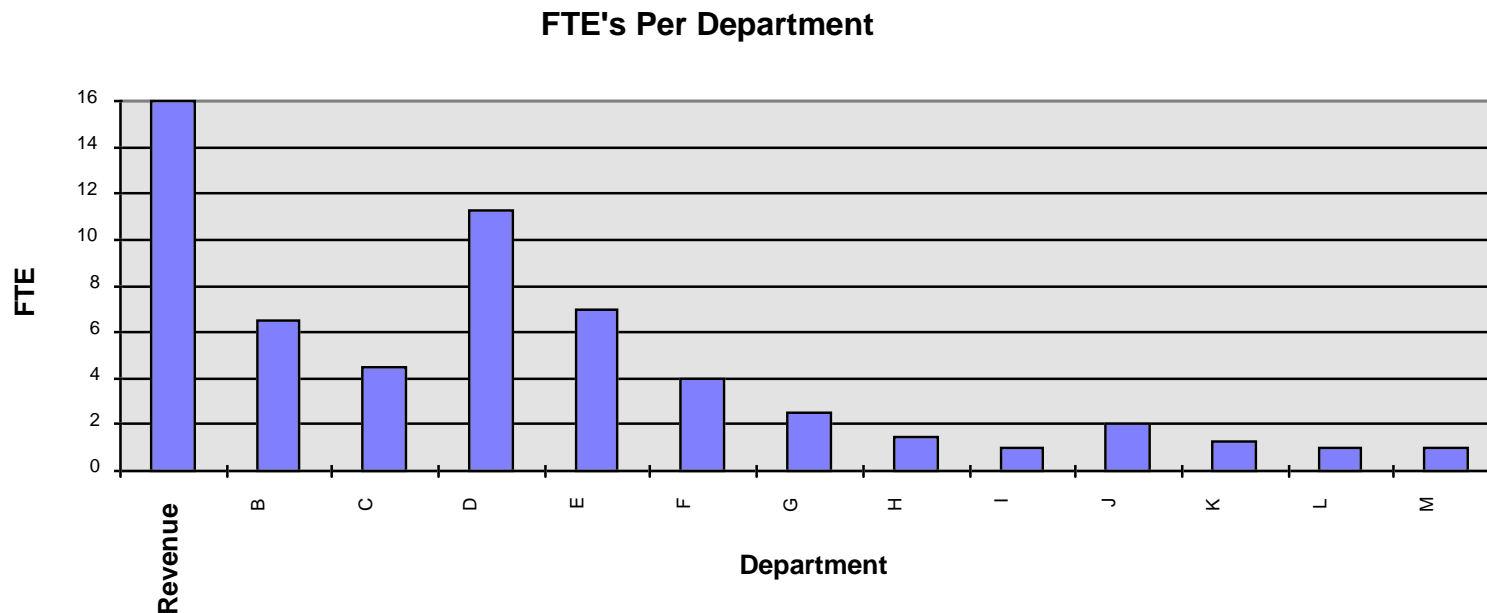
A total of 59.5 FTE's are currently employed to process 1.65 million transactions per year. This results in an average of 27,800 transactions per FTE.

Characteristics of Revenue Collection cont'd

Transactions Per FTE
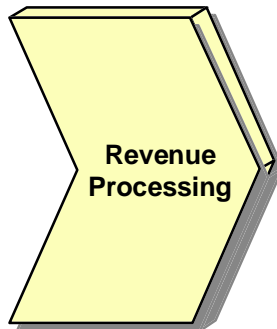

Economies of scale are achieved in those Departments with high transaction volumes.

Characteristics of Revenue Collection cont'd
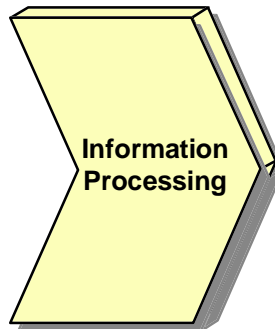
Cost Per Transaction
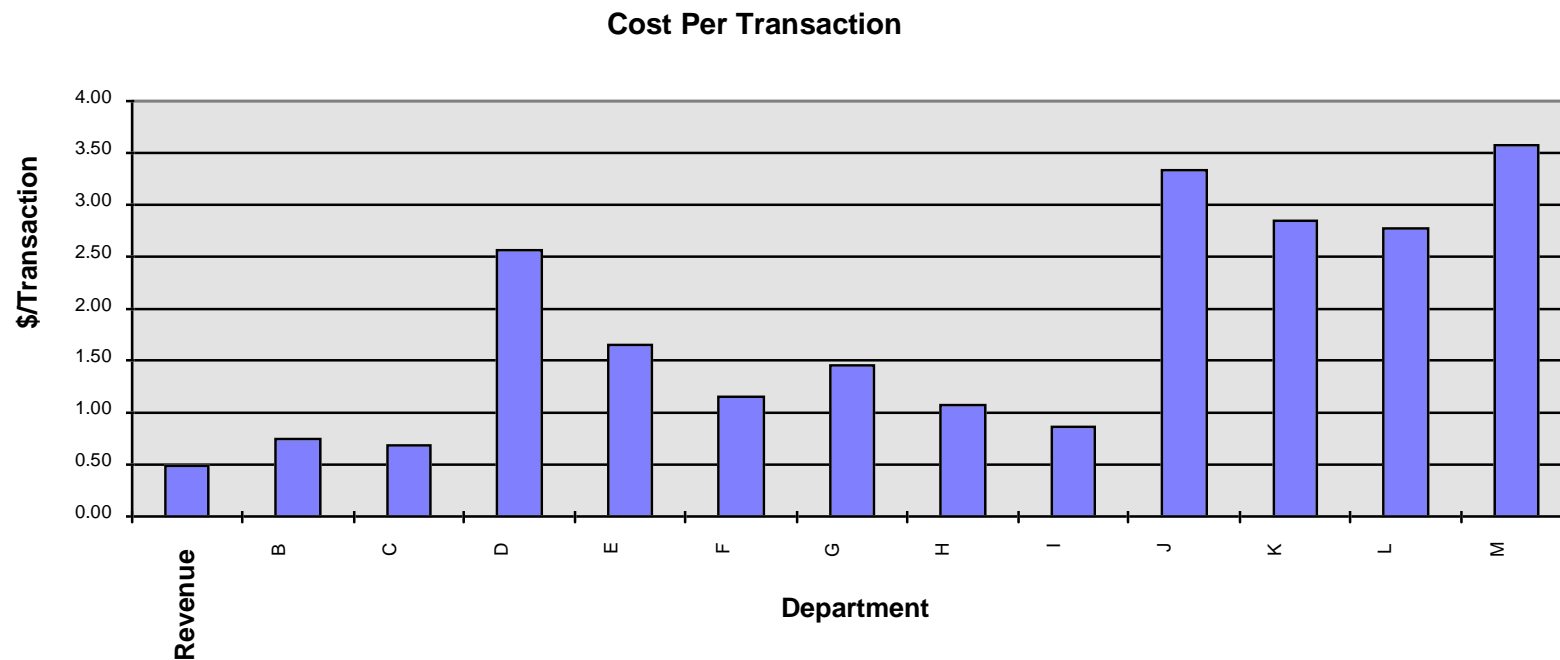
Economies of scale enable a significantly reduced cost per transaction.

Process Characteristics

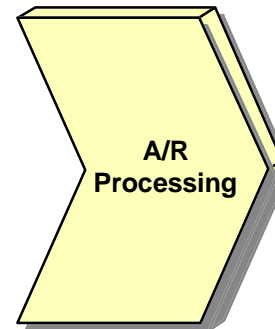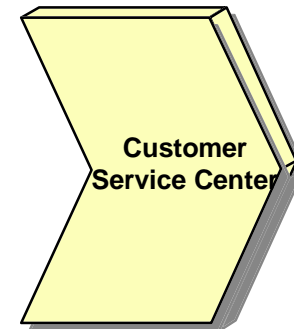| Revenue Processing	Information Processing	A/R Processing	Customer Service Center
• 59.5 FTE's • 1.65 million transactions/yr . • Cost: $0.90 per transaction	• Decentralized, no ability to data warehouse • Highly manual, approx. 30-40 FTE's • No standardization of forms	• Approx. 40-50 FTE's in several Depts. • Bad debts and delinquent accounts totaled more than $40MM in 1995	• Taxpayers and other payees have no single point of contact for revenue or information inquiries

Best Practices

| Montana Power Corp.			
• 6-7 FTE's • 3.5 million tx/yr • Costs $0.23 per transaction	• Centralized • Highly automated • Data warehousing	• Portfolio management of revenue sources • Minimize time to collect receivables	• High tech call center with on-line account info and problem resolution capability

Current Innovative Practices at the State

Practice → Benefit → Required Resources
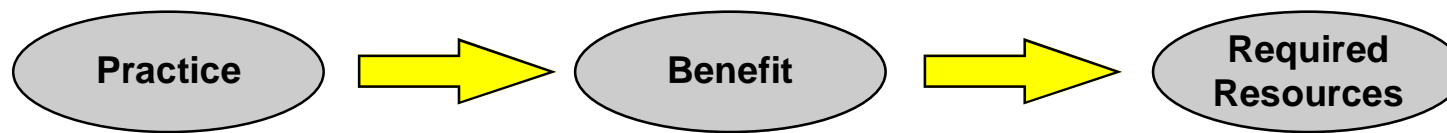
Practice	Benefit	Required Resources
1. Multiple PO Boxes	Pre-sorting of mail	Multiple PO boxes
2. Color coded envelopes	Quick accurate sorting	
3. Dept. mail pick-up	Reduced delivery time	Vehicle and driver
4. Bar coding/scanning	Quick accurate info capture	Hardware and software
5. Pre-paid funds	Simplifies revenue process	New accounting
6. EFT/Telefiling	Quick transfer of funds	Hardware and software
7. Voice Response Unit Telecommunications technology	Better Customer Service	
8. Netting of A/P and A/R	Improved Collection of A/R	A/R System linked to A/P
9. Automated Licensing software	Reduced Paperwork	New hardware and

What are the Problems ?

Internal

- Duplication of effort
- Lack of economies of scale
- Sub-optimal use of technology
- Disparate information systems
- Multiple hand-offs

External

- Multiple payments required
- Few options for payment methods
- Cumbersome process of customer inquiry

Internal: Duplication of Effort

- Of the 13 Departments studied so far, each has mailroom, cashiering and information system functions involved in processing revenue.

Mail

Cashiering

Information systems
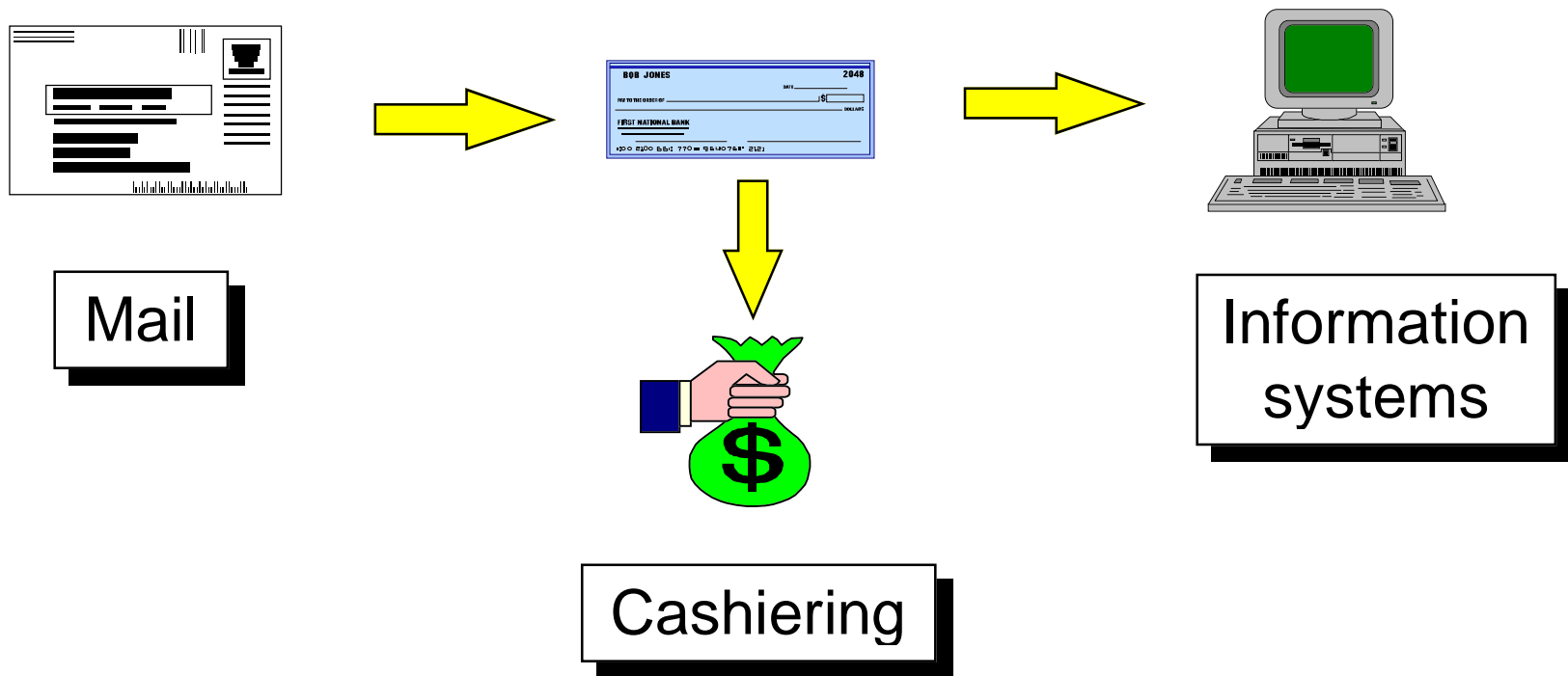
Internal: Lack of Economies of Scale

- With insufficient volumes in any one Department, it is not possible to use specialized processes and technology to gain large improvements in efficiency.

Decentralized
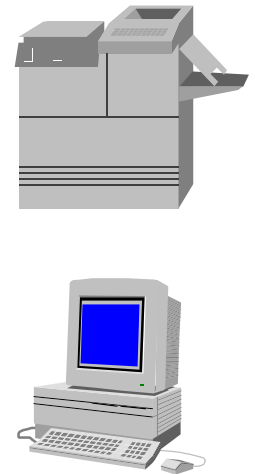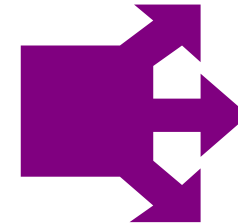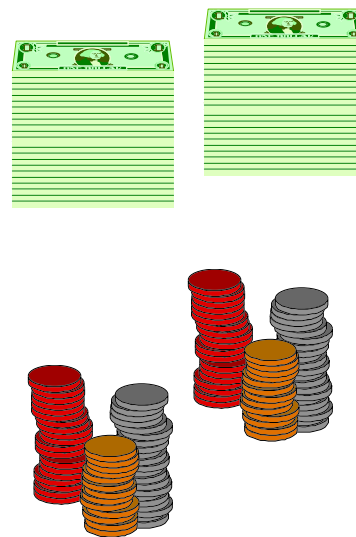
Centralized

Internal: Sub-Optimal Use of Technology

- Electronic funds transfer, bar coding and scanning technology are not being used to their full capacity.

<table>
<tr><td align="center">EFT</td><td align="center">Bar Coding</td><td align="center">Scanning</td></tr>
<tr><td>• Limited capacity to receive</td><td>• Pattern of folding remittance forms diminishes reading ability</td><td>• Inability to read some business checks or red ink

• Only used for withholding and estimated personal income tax</td></tr>
</table>
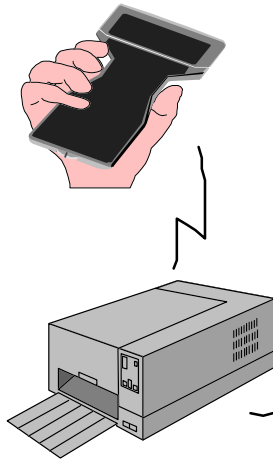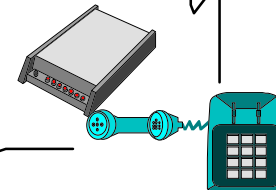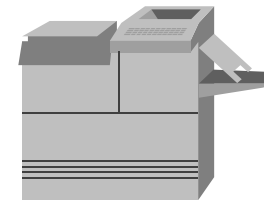
Internal: Disparate Information Systems

- No standard system below SBAS for receiving and tracking revenue. Each of the departments maintains and utilizes their own system. In some cases multiple systems exist within one Department.

- Multiple data entries are often necessary.

- The ability to share data is severely limited.

- Decentralized storage of data prevents access to cross-departmental information by tax payer.

An integrated system would improve the efficiency and effectiveness of information capture, tracking, sharing and storage.

Internal: Multiple Hand-offs

- A check may be handled by 6 or 7 different State employees before deposit in the bank.

State Mail   Department Mail   Department Cashiering

Department Management Services   State Treasury   Delivery to Bank

External: Multiple Payments Required

Professional licensing

Personal income tax

Building permits

Hunting license

Child support payments

Business income tax
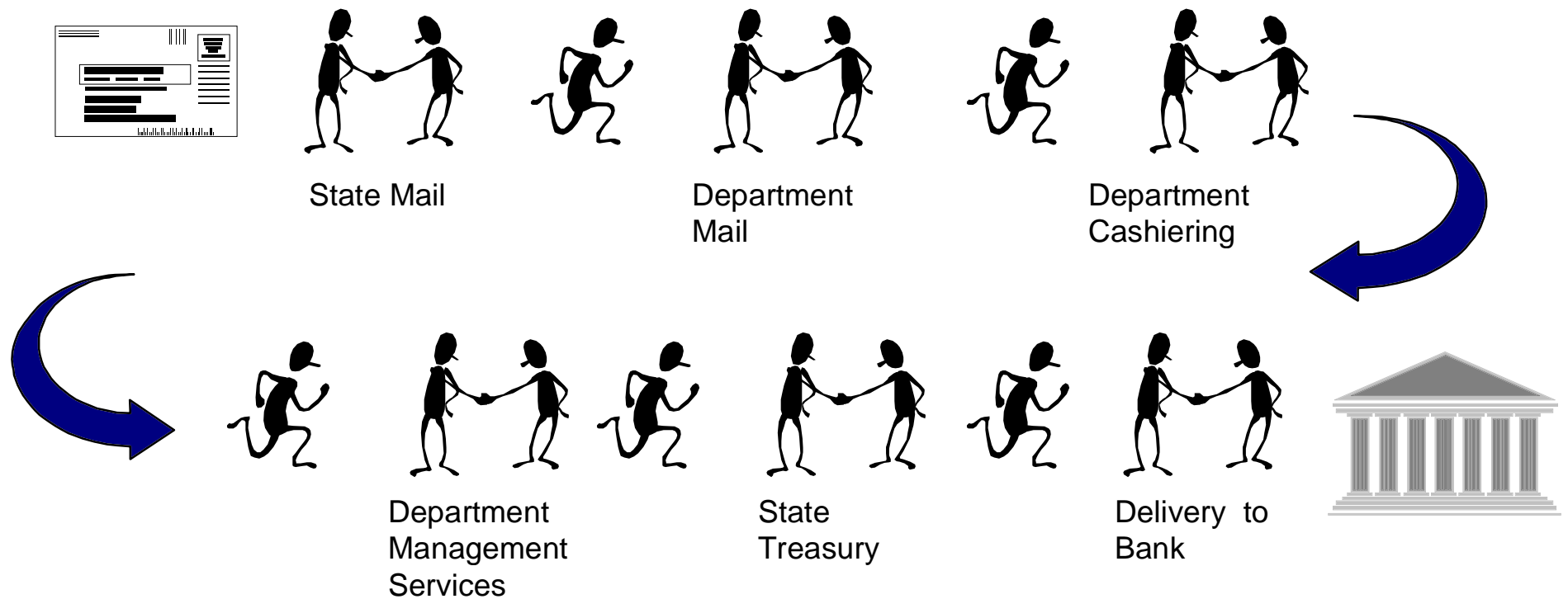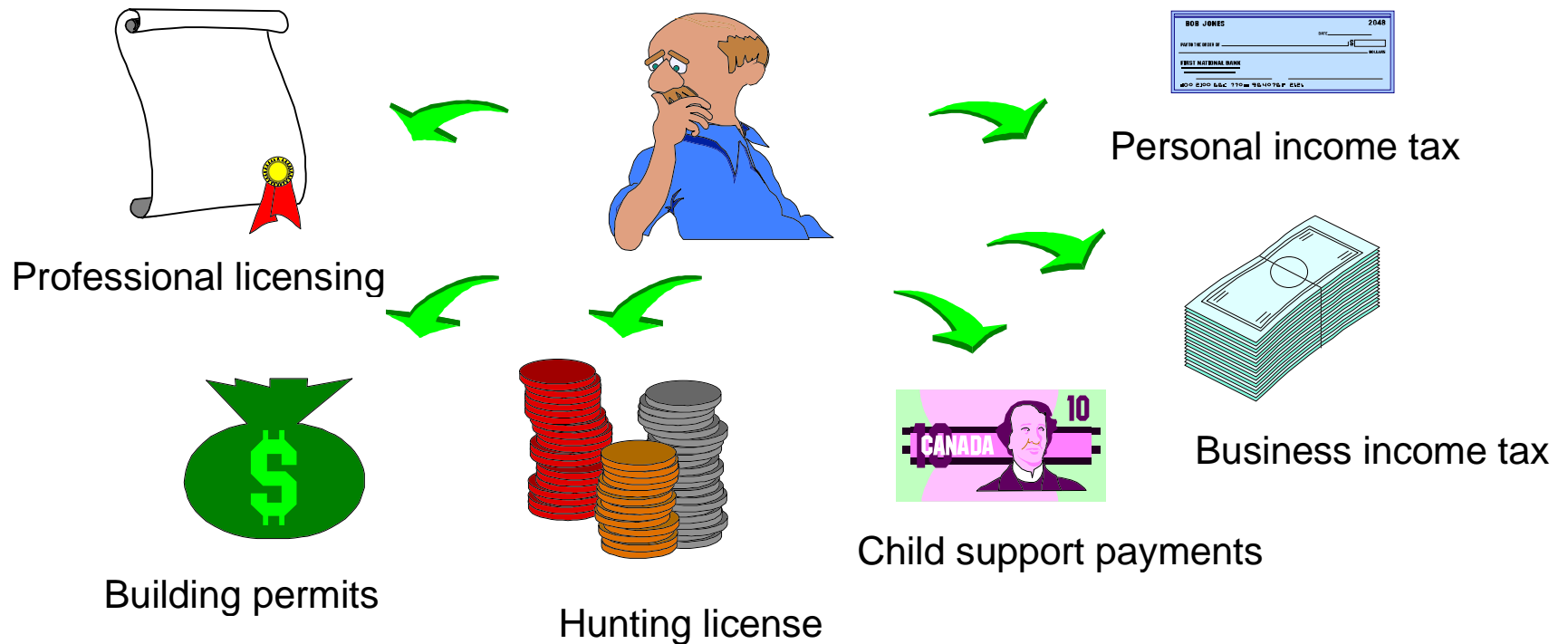
A taxpayer could easily remit payment to more than 6 different State agencies with each payment prepared and submitted separately.

External: Few Options For Payment Method

- Little or no capability to pay by the following methods:
  - automatic bank debit
  - credit card
  - telephone
  - kiosk (e-file)
  - EFT/EDI
  - at a bank or other local outlet

Good customer service requires flexibility.

External: Cumbersome Inquiry Process
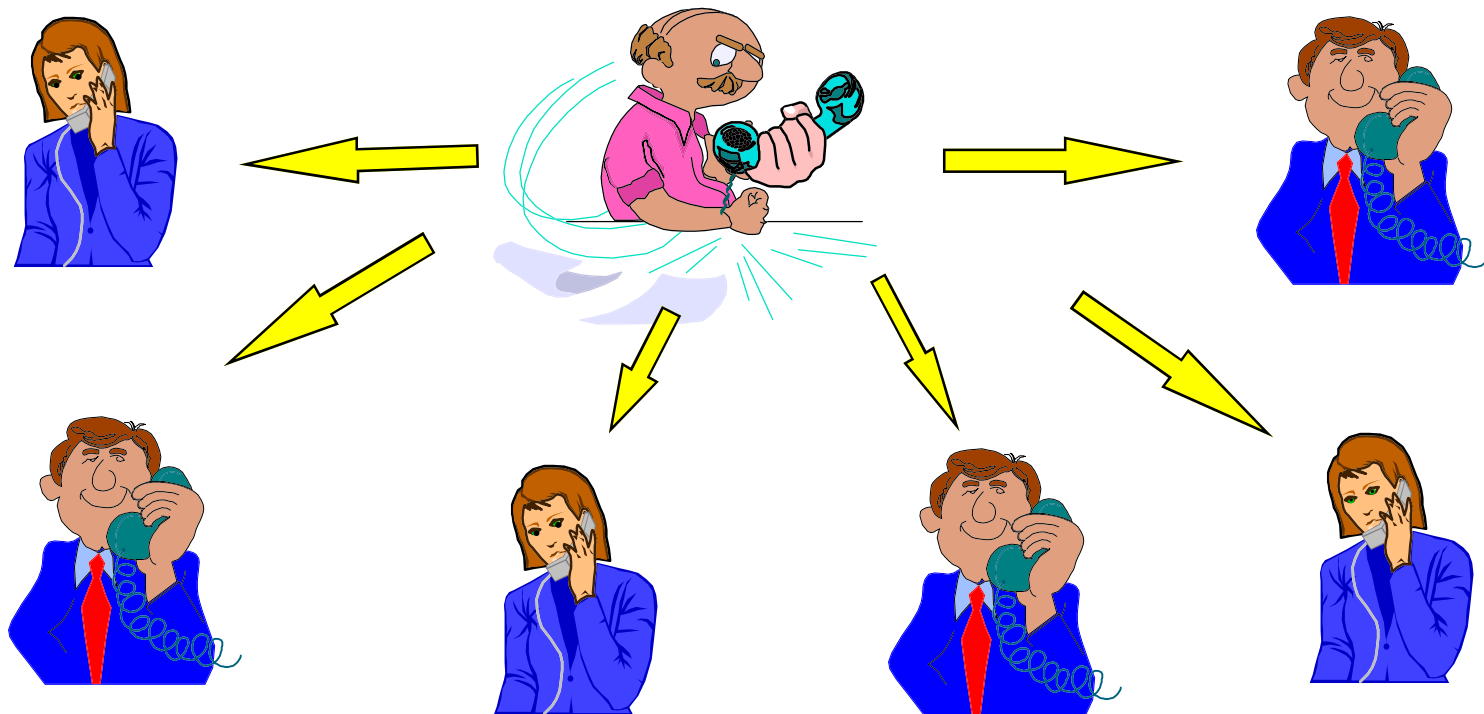
A taxpayer may have to inquire at several agencies to get answers to a question or sort out a problem.

Findings of Public Sector Research

Research at other State Governments highlighted a number of areas of potential interest to the State of Montana. Our specific findings from the States of Indiana, Florida, Illinois and Alabama are included in the Appendices to this report. Some of the more important findings are summarized below:

- Centralizing the revenue processing function would allow the State to capitalize on opportunities afforded by a data warehouse
- Taxpayer or payee input has been an important element in redesigning revenue related processes in other States
- A greater array of payment methods is being accepted in other States (e.g. credit cards)
- The combination of EFT and EDI creates fully electronic filing which is much quicker and easier to process
- Imaging technology can reduce document processing times and data entry labor
- Outsourcing of revenue and information processing is successfully utilized in some States
- Lock box networks can speed up the receipt of cash which increases revenue for the State

Findings of Private Sector Research

A visit to the Montana Power Corporation revealed a number of interesting findings that have direct relevance to the State of Montana initiative:

- Processing over 3 million transactions per year with 7 FTE's (average of 428,500 transactions/FTE)
- Highly automated processing (utilizing scanning technology that is one generation prior to that found in the Department of Revenue)
- Labor costs are estimated at $0.06 per transaction
- Estimated total costs are $0.23 per transaction
- High throughput is possible with standardized coupons and full payment remittances that include only one coupon and one check

Barriers to Implementation

The agencies interviewed expressed concerns in the following areas:

- **Performance**
  - speed of processing: both from a customer service perspective and in some cases, legislative requirements
  - correct allocation to objects of revenue
  - ability to sort out partial or incorrect remittances
  - resources available to install, operate and support a high technology processing center

- **Confidentiality**
  - confidentiality of information accompanying payments

- **Governance**
  - governance of the centralized processing center

- **Change Management**
  - the timing and pace of change in implementing a centralized processing center

Readiness to Change

- Staff at the Departments and Agencies involved in the study exhibited open minds regarding the potential for change and more specifically centralization of the revenue and information processes.

- Specific concerns were expressed regarding how a centralized center might operate with a consensus that if the individual performance requirements could be met, the stakeholders would be open to turning over responsibility for revenue and information processing.

- Acceptance of the need for change has also been expressed by the Governor of Montana and the Budget Director's office. High level support is a key success factor in any change initiative.

- If a decision is made to centralize the processes within the scope of this feasibility study, it will be critical that the extent of change required is not under estimated. Change management concepts as they relate to a shift in mindset and culture are absolutely essential in the successful implementation of any reengineered process.

Summary

Significant opportunities exist for improving customer service and achieving substantial cost reductions in the processing of revenue, accounts receivable and information.

Vision and Concept

Vision and Concept

➢ A Vision of the Centralized Process

➢ The New Process Model

➢ Core Operations Defined

➢ Underlying Principles of the New Model

➢ To Be Process Model

➢ Information Requirements

➢ Information Flow

➢ Service Provider Decision

➢ Savings Analysis

➢ The Opportunity Cost of Immediate Outsourcing

A Vision Of The Centralized Process

The vision statement below provides a concise, specific description of the new revenue and information processing center.

The centralized revenue and information processing center will provide services for revenue processing (payment receipt, cashiering), information processing (data capture, transmittal), accounts receivable processing (establish receivables, management reporting, delinquent collections) and customer service activities (account inquiry and call routing). Its clients will be all State government agencies with revenue collection responsibilities. It will utilize a fully integrated information repository and a commercially oriented accounts receivable package that are accessible to all department and agency stakeholders and linked to relevant departmental operational systems. Through centralization, the center will reap economies of scale and offer competitive services on a cost recovery basis. The center will operate out of a facility designed for maximum efficiency and lowest possible cost. There will be a clearly defined owner of the core processes who will ensure that stakeholder requirements and performance metrics are met.

The New Process Model

The following process model graphically depicts the key processes of the new center.

Management

- Management Reporting
- Audit, Security & Control
- Stakeholder Relations/ Reporting

Strategy

- Strategy & Policy Development and Maintenance

Core Operations

- Revenue Processing
- Information Processing
- A/R Processing
- Customer Service Center

Outcomes

- Better Customer relationships
- Improved Cash management
- Increased operational efficiency
- Improved mgmt. decision making
- Increase in value added analysis

Business Enablers

- Technology Management & Support
- Human Resources
- Information Integration & Database Management

Core Operations Defined

Revenue Processing	Information Processing	A/R Processing	Customer Service Center
• Mail receipt • Cashiering • Financial accounting • Deposit • Reconciliation • EFT handling • Error resolution	• Data entry • Data capture • Editing • Archiving • Transmitting data • Storing Data	• Establish A/R • Aging and reporting • Notices • Net/Offset A/R and A/P • Write-off • Collections • Clearing A/R's	• Transaction inquiries • Call routing and management
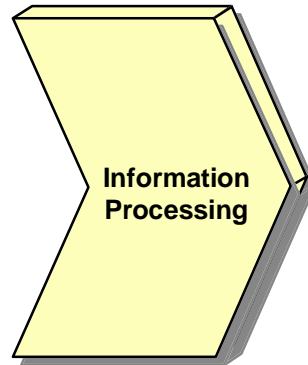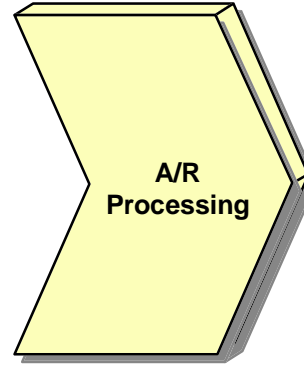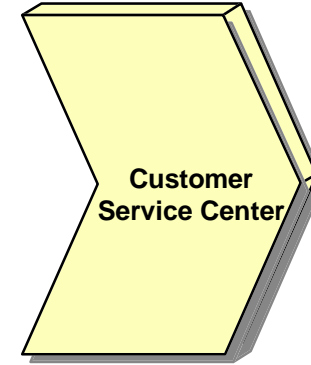
Underlying Principles of the New Model

Centralization is essential to achieve economy of scale benefits and is therefore common to all four processes. It will also be important for process ownership to be clearly mandated within the processing center.

Revenue Processing

- EFT and EDI will be maximized in all cases
- Standardization of payee identifier and remittance documents

Information Processing

- Standardization of forms
- Centralized repository of payee information
- Technology links will have to be established to participating Departments

A/R Processing

- Standardization of A/R processes
- Centralized A/R system

Customer Service

- Centralized point of contact for all payee inquiries

To Be Process Model
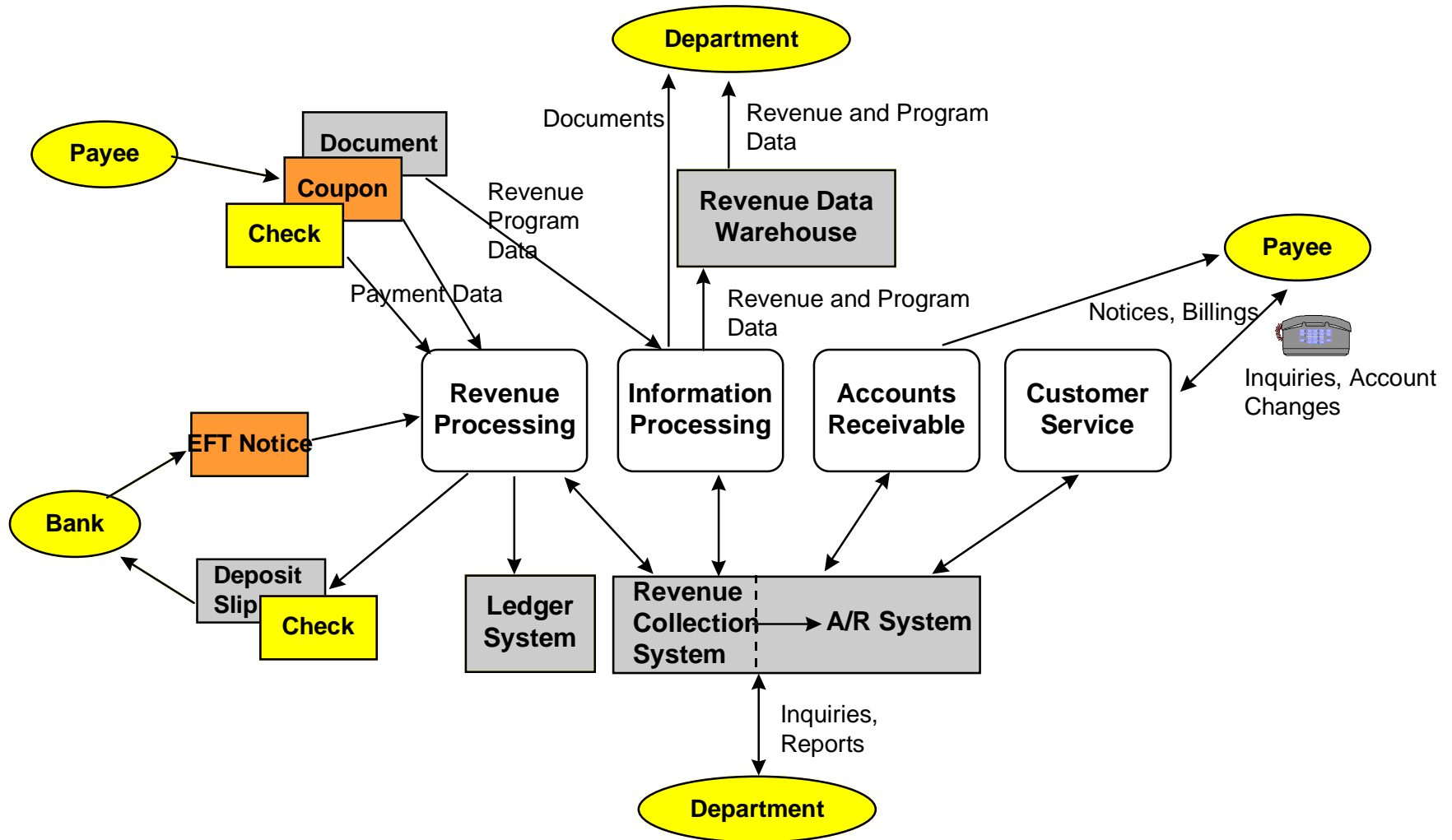
To Be Process Model cont'd

Features

- Payee submits checks and supporting documents to the center

- Center processes revenue and captures payment data

- Center will consolidate cash receipts and deposit directly to the bank

- Other relevant payment data is captured, forwarded to client departments, and stored for tax policy needs

- Center handles delinquent accounts, consolidated billing, netting of receivables and payments

- Customer service provides payee inquiry support through a 1-800 number

- Departments will have real time access to the revenue data warehouse and the A/R system
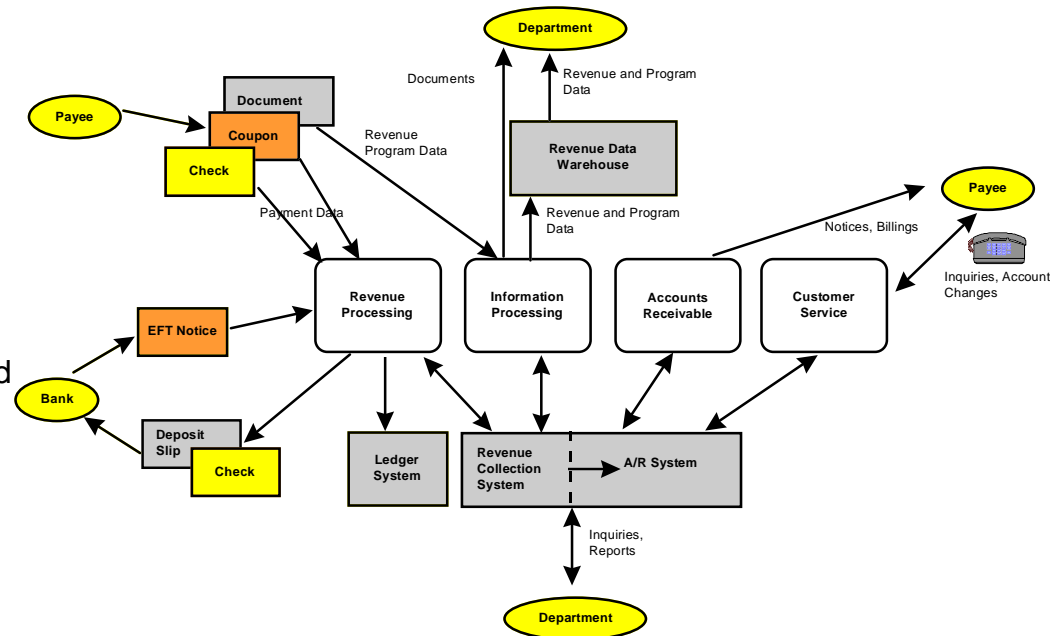
Information Requirements

The following chart identifies the categories of information which are required for each process. It can be readily seen that the requirement to add a new category diminishes as one moves from revenue processing to information processing, accounts receivable processing and customer service.

	REVENUE PROCESSING	INFORMATION PROCESSING	ACCOUNTS RECEIVABLE	CUSTOMER SERVICE
Payee	✓	✓	✓	✓
Remittance	✓	✓	✓	✓
Agent	✓	✓	✓	✓
Department	✓	✓	✓	✓
Program	✓	✓	✓	✓
Service	✓	✓	✓	✓
Bank	✓			
Financial Account	✓		✓	
Document		✓		✓
Document Data		✓		✓
Receivable			✓	✓
Warrant Recipient			✓	✓
Warrant			✓	✓

Information Flow

The diagram below illustrates the information flows between payees,
the center and client stakeholders.
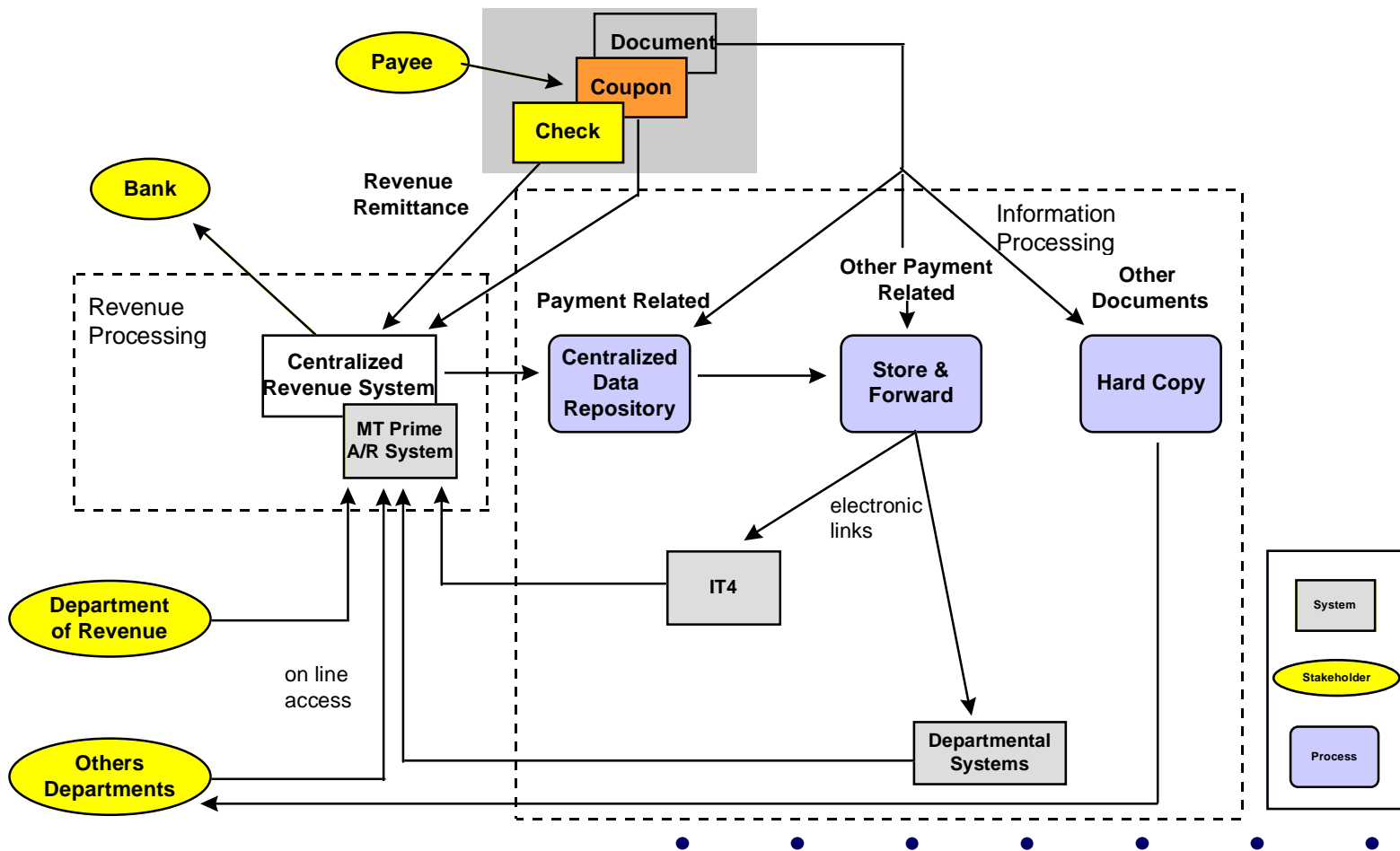
Service Provider Decision

- To achieve the substantial productivity gains and improved customer service identified in the four processes under review, the State must decide whether or not to use a third party service provider (outsource option) to carry out the four processes.

- Deloitte & Touche Consulting Group does not recommend the outsource option at this time. The savings to be realized through centralization would be jeopardized by pursuing outsourcing before the processes have been centralized and optimized.

- Once the preferred option has been implemented and the processes streamlined, the State will better understand the internal process costs and will be able to request proposals from the private sector to take over all or a portion of the services.

- The next two slides illustrate these points.

Savings Analysis

The potential savings from the centralized processing center are comprised of two categories: strategic savings and tactical savings.

Tactical Savings: smaller savings derived from tactical choices such as lock box processing, forms rationalization, facility layout, etc. Outsourcing is clearly within the tactical savings category.

Strategic Savings: significant savings brought about by concentrating volumes and achieving economies of scale.

Tactical Savings

Strategic Savings

Total Potential Savings
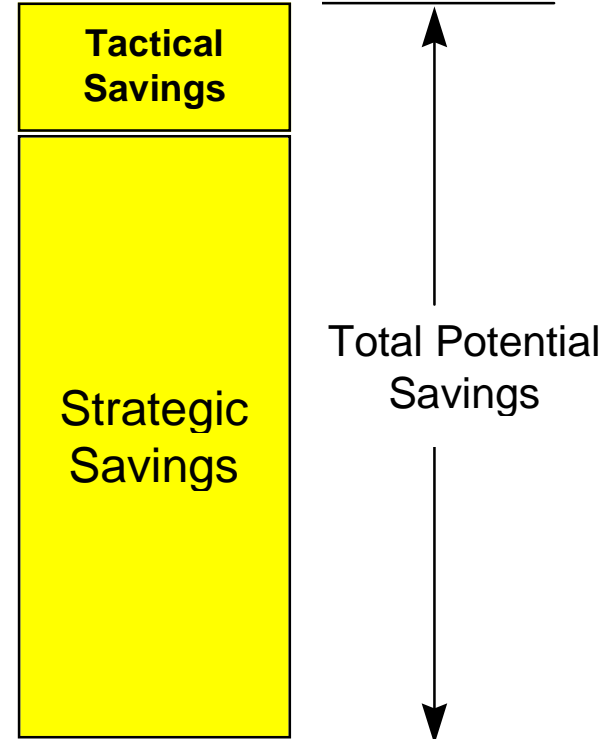
The Opportunity Cost of Immediate Outsourcing

In the adjacent scenario, the centralized processing center would be established in-house with tactical decisions such as outsourcing to follow at a later point in time. The strategic savings of centralization are realized first, followed by the tactical savings.

Centralize then Outsource

Cost Reductions

Strategic Savings

Tactical Savings

Time
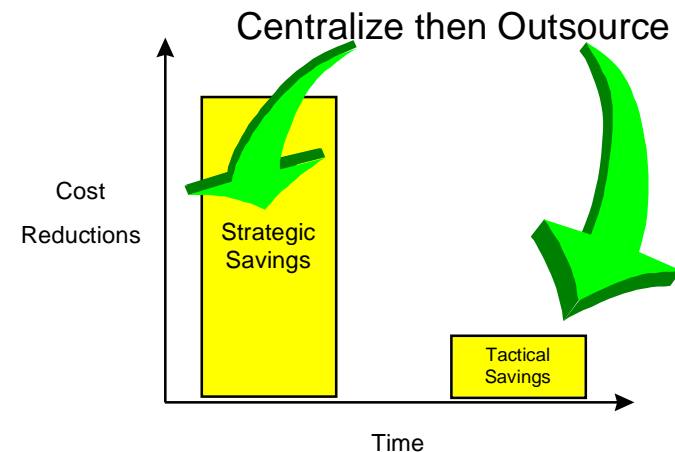
In the second scenario, where outsourcing is considered before centralization of the processes is achieved, the strategic savings are jeopardized. The best case for this scenario is that the strategic savings would be realized at a later point in time, thus incurring a large opportunity cost for the State.

Outsource then Centralize

Cost Reductions

Strategic Savings

?

Tactical Savings

Time
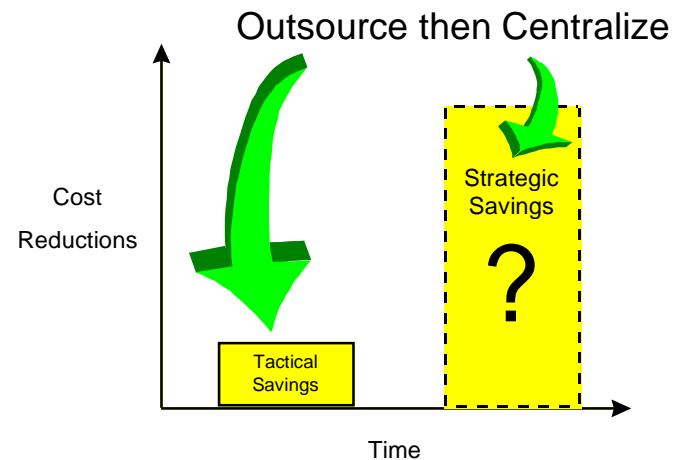
Evaluation of Technology Alternatives

Evaluation of Technology Alternatives

➢ Technology Options

➢ Criteria for Evaluation

➢ Evaluation of Alternatives

➢ Conclusion

Technology Options

- The underlying principles of the centralized model describe the major changes from the current processes. A decision remains regarding which technology to implement for information processing. There are three options which can be considered:

1. **In House Technology:** Revenue processing through increased utilization of the NCR 77-80 scanner, transporter and CAR software which currently reside in the Department of Revenue. Information capture would be accomplished through manual keying.

2. **Imaging Technology:** Large scale implementation of technology which creates an electronic picture of scanned documents. Information would be captured by manual keying off of images. The images would be accessible on desktops in departments.

3. **OCR Technology:** Implementation of technology which creates a document image and then digitizes selected data from that image. The digitized information is equivalent to data which is manually keyed.

Criteria for Evaluation

The following criteria comprise a list of the important factors to consider when analyzing the options available to the State:

Customer Service - how easy is it for payees to remit payment to the State and make inquiries.

Cost Benefit - the net benefit of the alternative taking into account the projected savings, the annual operating costs, and all implementation costs (including subsequent phases) such as training, new technology acquisition, space fit-up, installation, configuration, new equipment purchases, conversion, networking, advisory services, etc.

Performance - would include the ability of the alternative to meet performance expectations of internal customers (State Departments and Agencies). This may include transaction volumes, throughput, response times, turn-around time, error processing, agency access to information, storage requirements system reliability and disaster recovery plan.

Flexibility - would include the ability of the alternative to provide service to multiple agencies and to adapt to changes in the business environment.

Criteria for Evaluation cont'd

Technology Risk - would include an assessment of risk related to introduction of technology, technology availability, degree of technology fit with current and planned technology environments, special hardware needs, local supply, local support, and need for custom-developed solutions.

Integration of Information - the ability of the alternative to allow for the integration of payment, information, A/R and other relevant data.

Degree of Legislative Change Required - would include an assessment of any constraints imposed by legislation or other rules that preclude or inhibit significant changes.

In House Technology

- Optimization of current Department of Revenue scanning and mail opening technology
- Purchase of additional scanning and mail processing equipment
- Remittance documents (coupons and checks) read by scanner
- Limited use of imaging (checks and coupons only) with archiving on CD
- Manual data entry of supporting documentation

Advantages

➤ Lowest cost

➤ Technology is already in place and support is being provided

➤ Degree of change for departments is minimized

➤ Operational skill set is already in place

➤ Easiest to implement

Disadvantages

➤ Largely manual data entry

➤ Not fully capitalizing on currently available information capture technology

Imaging Technology

- Implementation of imaging technology to obtain electronic pictures of documents
- Requirement for manual key punching from image to capture information from documents
- Departmental staff will have desktop access to images
- Checks and coupons scanned utilizing current technology

Advantages

➤ Potential for limited FTE reductions

➤ Efficient retrieval of imaged documents

➤ Reduction in document storage space requirements

Disadvantages

➤ Very high cost to distribute images to user departments with limited benefits

➤ Increased complexity (technology support)

➤ Output is not in a digitized form (essentially a picture)

➤ Substantial amount of effort required for manual key punching

OCR Technology

- Implementation of OCR/ICR technology for information capture of supporting documents
- Usage of imaging for archive purposes only (for both revenue and information processing)
- Check s and coupons scanned utilizing current technology

Advantages

➢ Minimal manual data entry

➢ Reduction in FTE's with potential to shift resources to higher value add activities

➢ Improved accuracy

Disadvantages

➢ Higher cost than in house technology option and less cost than the imaging option

➢ Greatest complexity of technology

➢ Extensive redesign of forms

➢ Requires a commitment to relatively new and evolving technology

Evaluation of Alternatives

The In House Technology alternative offers the highest cost/benefit with minimal technology risk.

CRITERIA	In House Technology	Imaging Technology	OCR Technology
Customer Service	High	High	High
Cost/Benefit	High	Low	Medium
Performance	High	High	High
Flexibility	Low	Medium	High
Technology Risk	Low	Medium	High
Integration of Information	Medium	Medium	Medium
Degree of Legislative Change	Low	Low	Low

◯ Low   ⊖ Medium   ◯ High

Cost / Benefit — High / Low
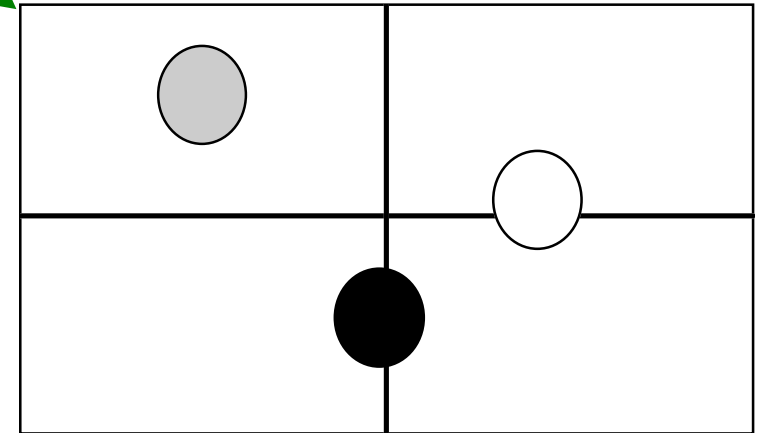
Technology Risk — Low / High

◯ In House   ● Imaging Technology   ◯ OCR Technology

Conclusion

- Significant benefits are achievable by expanding the use of current In House Technology.

- This alternative is based upon technology that is already in place and capitalizes on internal resources that already have the necessary skills and knowledge to run and support it.

- Given the relatively small transaction volumes within the State of Montana, the in-house technology option avoids the high cost of alternative technologies that provide only marginal benefits at lower volumes.

Implementation Plan

Implementation Plan

➢ Implementation Strategy

➢ Reengineering Overview

➢ Time Line

➢ Quick Hits

➢ Pilot Phase

➢ Suggested Pilot Phase Organization Structure

➢ Likely Roll Out Strategy

➢ Estimated Implementation Costs

➢ Key Success Factors

➢ Outstanding Issues

➢ Next Steps

Implementation Strategy

The implementation strategy defines a set of guiding principles on which the implementation will be based.

Technology
- Bundle technology selection with MT Prime ("state of the market" strategy)
- Use a market selection process to drive technology choices (e.g. RFP)
- Make it scaleable to permit staggered growth as more agencies are brought into the centralized process
- Buy, do not build (vendor accountability for results, in house staff for conversion)

Approach
- Implementation of changes in phases in order to manage risk
- Focus on high volume transactions
- Focus on transaction streams, not departments
- Implement all 4 processes simultaneously when migrating a revenue type to the center
- Bring the Department of Revenue on line first in order to understand process, costs, etc.
- Drive towards world class performance levels
- Use cost justification criteria for all investments
- Retrofit available space with factory oriented features

Implementation Strategy cont'd

Quick Hits

- Focus on quick wins to prove the concept
- Include a non Revenue Department revenue stream to surface buy in, linkage concerns, governance issues, service considerations, ownership issues, costs and benefits
- Focus on a Revenue Department quick hit to refine the processes and free up resources to assist with the project

Resources

- Obtain the majority of resources from the Department of Revenue (largest resource base, skill set, likely owner, technology already in place)
- Obtain active client department involvement(important for effective communication during proof of concept)
- Supplement with contracted staff to transfer knowledge during implementation

Timing

- Complete proof of concept (pilot) within 18 months
- Implementation capability will be developed during the pilot phase

Reengineering Overview

The Deloitte & Touche reengineering methodology incorporates five phases:

- establish change imperative;

- create vision and targets;

- redesign;

- build and configure; and

- implement.

Both the quick hits and the large scale roll out should follow these five basic phases.

To date, the first two (establish change imperative and create vision and targets) have been completed.

	establish change imperative	create vision and targets	redesign	build and configure	implement
Strategy and Management Systems	Strategic Intent	Strategic Repositioning	Management Systems Design	Process-Focused Management	ManagementSystems Implementation
	Capability Transfer Strategy	Initiative Rationalization	Organization Design		Strategic Renewal
	Process Prioritization		Outsourcing Alternatives		Implement New Processes
Process	External Assessment	Process Performance Analysis	New Process Design	Facilities Configuration	Continuous Improvement
	Internal Assessment	Innovation Enablers	Prototype and Simulate	Pilot	
	Customer Needs Assessment	Process Vision and Targets	Process Integration		
	Benchmarking/Best Practices				
	Process Maps		IS Requirements		
	Change Imperative		IS Design		
			IS Transformation Capability	IS Development	IS Implementation
Information Technology	IS Assessment	IS Direction	IS Selection	IS Configuration	
Change Management		Capability Transfer	Stakeholder Enrollment		Change Challenge Assessment
	Team Building	HR Process Realignment	Leadership Action	Frontline Change Leadership	
	Change Pathway Planning		New Workplace Skills	New Job Skills	
	Leadership Alignment		Workforce Transitions		
	Change Challenge Assessment		Performance Management		
	Change Capacity				
Reengineering Program Management	Program & Project Plan	Redesign Integration Strategy	Implementation Strategy		
	Quick Hit Opportunities	Quality Assurance & Risk Assessment			
		Business Case			

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Time Line

PROJECT MANAGEMENT

Change Imperative

Vision and Concept

Today ⭐

| Quick Hits | | PILOT PHASE |

Detailed Process Redesign

Technology Selection

Prototype

Test

Technology Construction Phase

| Configure | Install | Implement |

Oct. 7   Nov. 8   Dec. 5   Jan. 1/97   Apr. 1   Aug. 1   Apr. 1/98

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Quick Hits

- Prior to a legislative decision on funding for the establishment of a centralized processing center, there are several actions or "quick hits" that can be captured.

- **Approach:**
  - Centralize revenue processing activities of the Department of Revenue and one other stakeholder Department;
  - Design scanable coupons and reconfigure Department of Revenue software to accept the new revenue types;
  - Redesign quick hit target processes and establish performance metrics; and,
  - Determine resource requirements and retrain staff.

- **Benefits of Quick Hits:**
  - Increased acceptance of the feasibility of centralized processing;
  - Training of resources on the standardized procedures;
  - Reduction in staff required to complete "old" revenue processes that can then be utilized to expand the project and train others; and,
  - Further definition of issues to be resolved such as ownership, linkages to stakeholder departments and performance considerations.

The ability to implement rationalized revenue and information processing within the Department of Revenue will prove the feasibility of the concept.

Pilot Phase

- Once funding has been approved, standardized information processing, accounts receivable processing and customer service procedures can be developed, centralized and implemented concurrent with the technology construction phase.

- **Approach:**
  - Continue to work with the revenue streams from Quick Hits;
  - Develop an understanding of the current processes for information capture, accounts receivable management and customer service; and,
  - Redesign the processes (develop standardized procedures) to allow them to be efficiently performed in a centralized center.

- **Benefits of Pilot Phase:**
  - Prove the concept. By the end of this phase, additional revenue streams within the Department of Revenue as well as one other from another state Department will have been added to the standardized process and a centralized center will be responsible for information capture, accounts receivable and customer service.

- **Outputs of Pilot Phase:** Roll out approach for incorporating additional Departments and revenue streams, standardized process models for revenue, information, and accounts receivable processing, and establishment of procedures for dealing with customer inquires.

Suggested Pilot Phase Organization Structure

```
                    ┌─────────────────┐
                    │    Steering     │
                    │   Committee     │
                    └────────┬────────┘
                             │
                    ┌────────┴────────┐
                    │    Project      │
                    │    Manager      │
                    └────────┬────────┘
                             ┊
   ┌──────────┬──────────┬───┊───────────┬──────────────┐
┌────────┐ ┌────────┐ ┌──────────┐  ┌──────────┐ ┌──────────────┐
│ Client │ │Business│ │Revenue   │  │  Client  │ │Revenue Center│
│Business│ │Process │ │Center    │  │Technology│ │Technology    │
│Analyst │ │Special.│ │Business  │  │ Analyst  │ │Specialist    │
└────────┘ └────────┘ │Analyst   │  └──────────┘ └──────────────┘
                      └──────────┘
```

NEW TECHNOLOGY TEAM *

| Package Specialist | New Technology Specialist | Programming Specialist |

* Dependent on Mt Prime Project
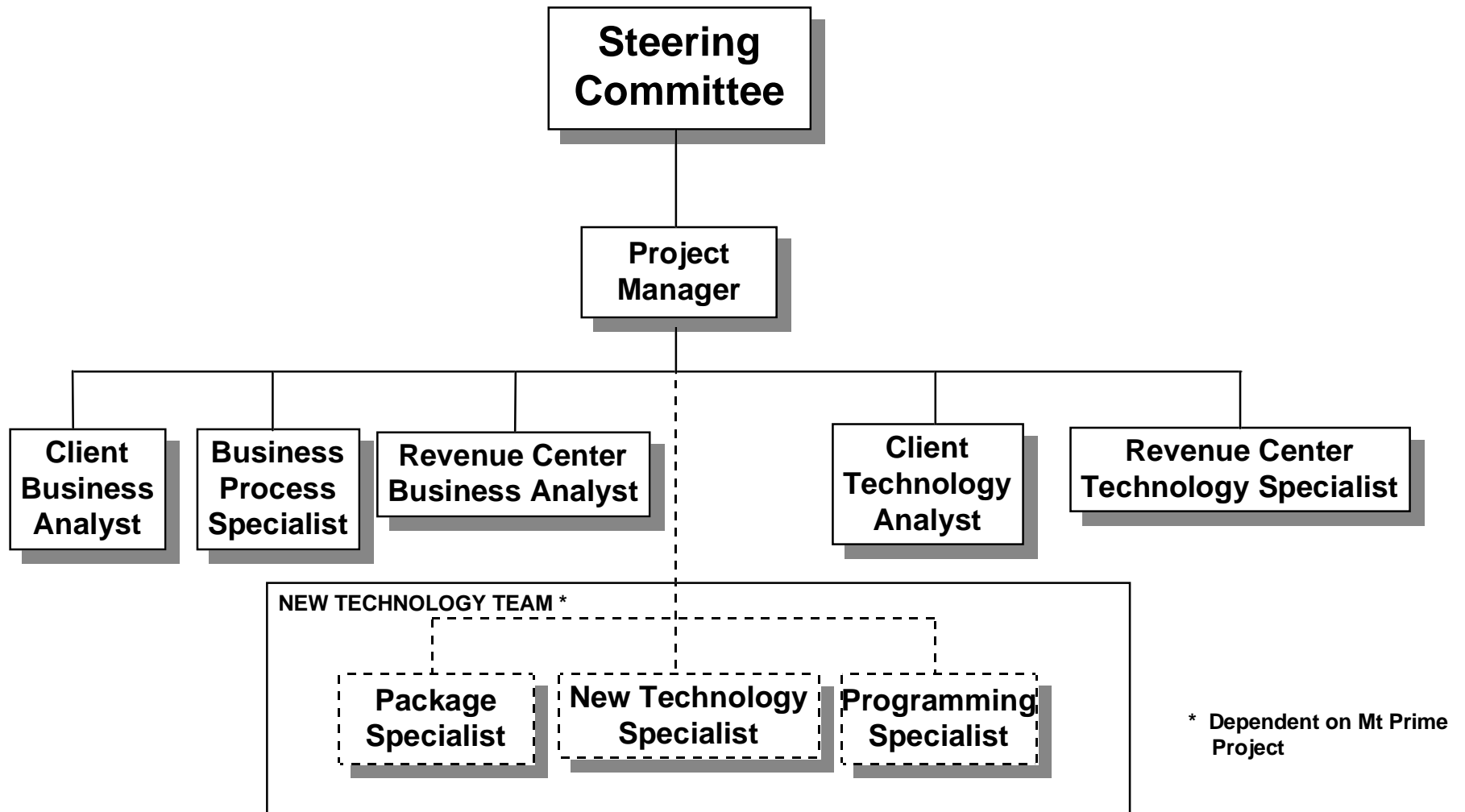
Likely Roll Out Strategy

Once the standardized processes and technologies are in place, it will take approximately 3-4 weeks to understand and reconfigure each departmental revenue type and 3-4 months to migrate each revenue type to the new center.

Department A

Department B

Department C

Department D

Department E

Standardized Technology and Processes
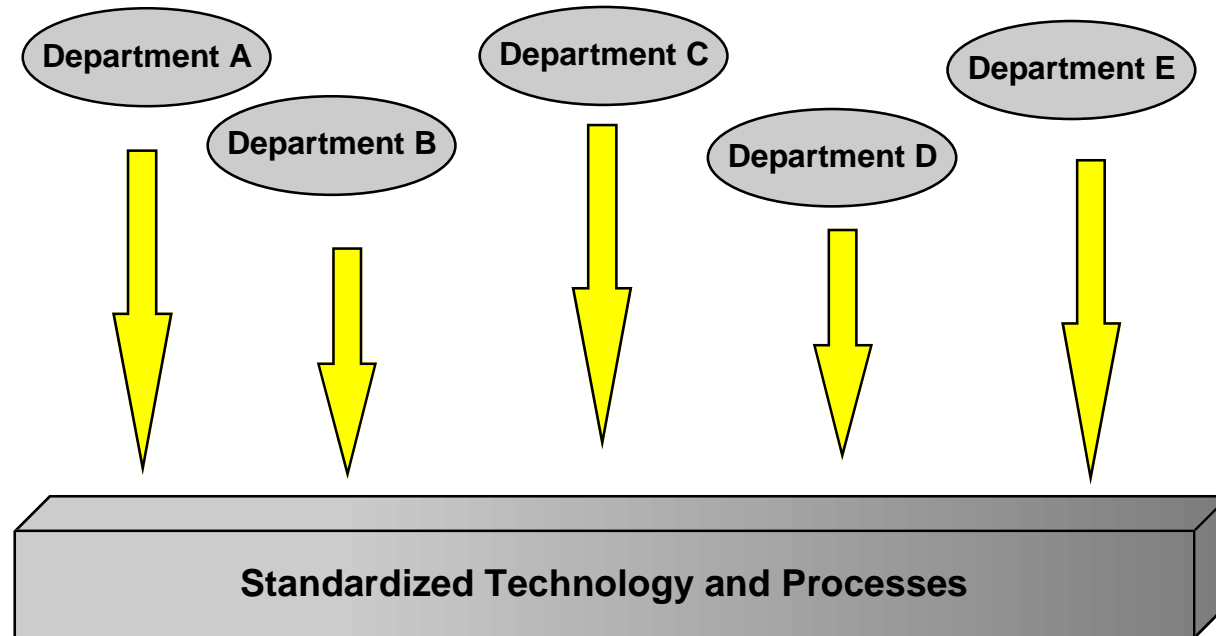
- Centralized Processing Using Standard Procedures
- Scanning of Checks and Redesigned Coupons
- Technology Links to Departmental Customers
- Data Feed to Centralized Repository
- Central Management of Accounts Receivable

Estimated Implementation Costs

Pilot Phase

```
                          ┌─────────────┐
                          │   Project   │   $250/hour
                          │   Manager   │   1/2 time
                          └─────────────┘
         ┌───────────┬──────────┼──────────┬───────────┐
┌────────────┐ ┌────────────┐ ┌────────────┐ ┌────────────┐ ┌────────────┐
│Client      │ │Revenue     │ │Business    │ │Client      │ │Revenue     │
│Business    │ │Center      │ │Process     │ │Technology  │ │Center      │
│Analyst     │ │Business    │ │Specialist  │ │Analyst     │ │Technology  │
│            │ │Analyst     │ │            │ │            │ │Specialist  │
└────────────┘ └────────────┘ └────────────┘ └────────────┘ └────────────┘
  $25/hour       $25/hour       $200/hour      $25/hour       $25/hour
  Full time      Full time      Full time      Full time      Full time
```
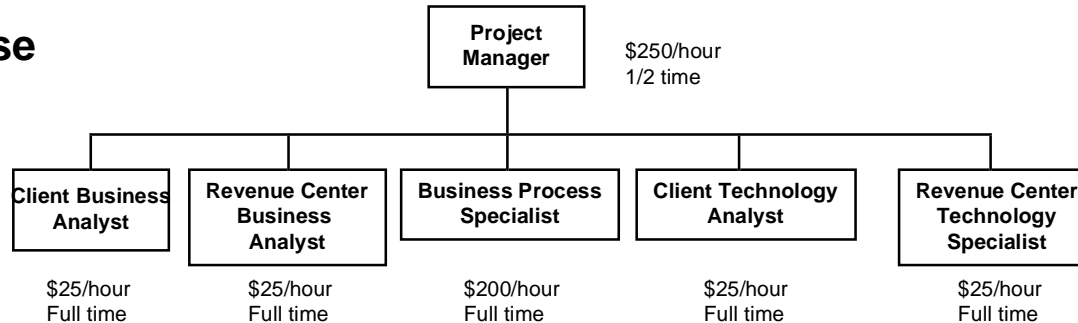
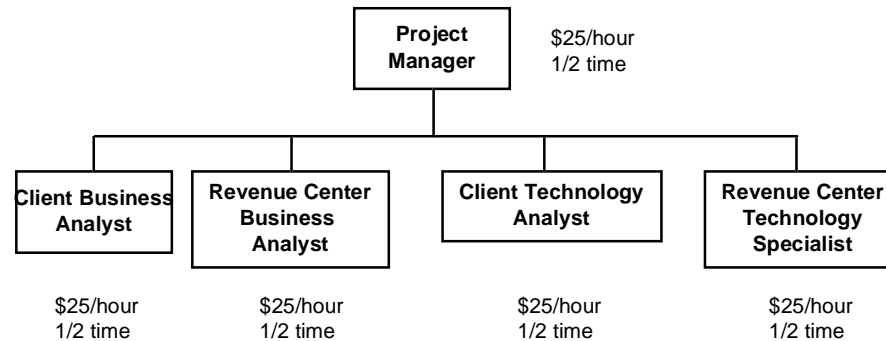| Technology/Infrastructure Costs	
Software	$150,000
Server	$200,000
Licenses	$100,000
Data Warehouse	$250,000
Scanner	$150,000
Mail Processing Equipment	$100,000
Workstations (50 knowledge workers * $5000)	$250,000
Space Fit Up (60 FTE's @ 250 sq. ft. each * $25)	$375,000
TOTAL	**$1,575,000**

Project Team Costs	
$425/hr * 8 hrs * 20 days/month * 10 months	$680,000
Other Project Costs (~10%)	$ 70,000
TOTAL	**$750,000**

Total estimated costs of Pilot Phase: $2.3 million.

Estimated Implementation Costs cont'd

Roll Out


```
                        ┌──────────────┐
                        │   Project    │   $25/hour
                        │   Manager    │   1/2 time
                        └──────┬───────┘
          ┌──────────────┬─────┴─────┬──────────────┐
┌─────────────┐ ┌──────────────┐ ┌──────────────┐ ┌──────────────┐
│Client Business│ │Revenue Center│ │Client Technology│ │Revenue Center│
│   Analyst   │ │  Business    │ │   Analyst    │ │  Technology  │
│             │ │   Analyst    │ │              │ │  Specialist  │
└─────────────┘ └──────────────┘ └──────────────┘ └──────────────┘
  $25/hour        $25/hour         $25/hour         $25/hour
  1/2 time        1/2 time         1/2 time         1/2 time
```

Each revenue type will take approximately 3 months of elapsed time to bring on stream. A project team (as depicted above) would be struck and would spend approximately 1/2 of their time on each revenue type.

Project Team Costs

$125/hr * 8 hrs * 20 days/month * 1.5 months type)	$30,000 (per revenue
# of Revenue Types (estimated)	*_____50
TOTAL	**$1,500,000**

Total estimated costs of Roll Out: $1.5 million.

Key Success Factors

- Senior level commitment to the project
  - part of executive agenda
- Clear responsibility for ownership and accountability for success
- Dedicated resources
  - a team that is full time on the project and is empowered to make specific implementation decisions
  - issues which are difficult to resolve will be escalated
  - high performance resources
- Emphasis on change management
  - on going, open communication with all stakeholders will be critical
- Focus on the needs of the customer in defining the processes
- Integration with MT PRIME for both timetable and technology
- Change within Revenue Department first in order to demonstrate progress and commitment to change

Outstanding Issues

- **Governance:** the State will need to develop a different management model to own and operate a centralized service center.

- **Ownership:** ownership of data and A/R need to be determined. Minimizing delinquent collections may mean refusing service in some cases. Service providers need to have some ownership over success of collections.

- **Treasury:** current role of consolidating cash receipts from departments becomes redundant with a centralized revenue processing center.

- **Performance Metrics and Expectations:** real time data and information access required. Not all metrics have been defined.

- **Readiness to Change:** it is not clear whether the Department of Revenue is ready to change its operations in the suggested manner.

Next Steps

- **January '97 to April '97: Quick Hits**
  - Develop a detailed understanding of current revenue processing activities for pilot revenue streams
  - Develop a standardized revenue process utilizing current scanning technology
  - Wide spread implementation of best practices currently found in departments (as applicable)
  - Begin consolidation of pilot revenue processes to the new standardized process
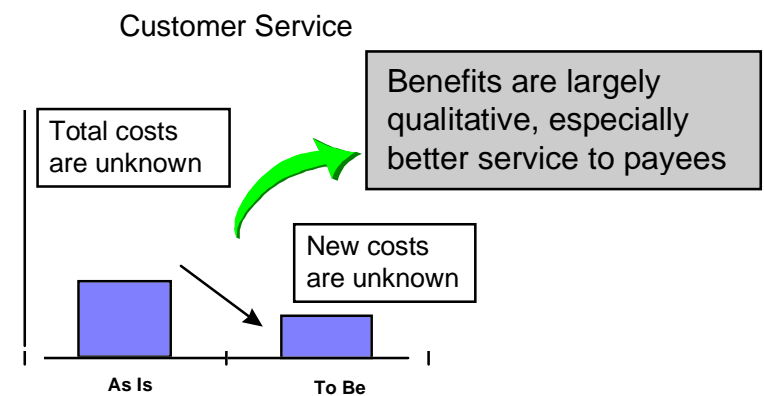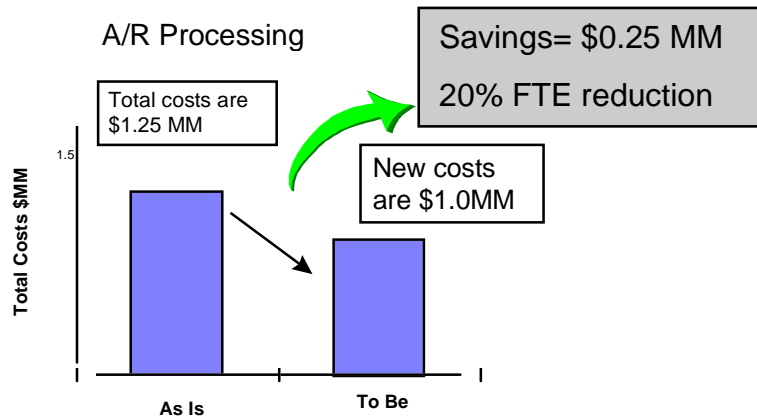
Business Case

Business Case
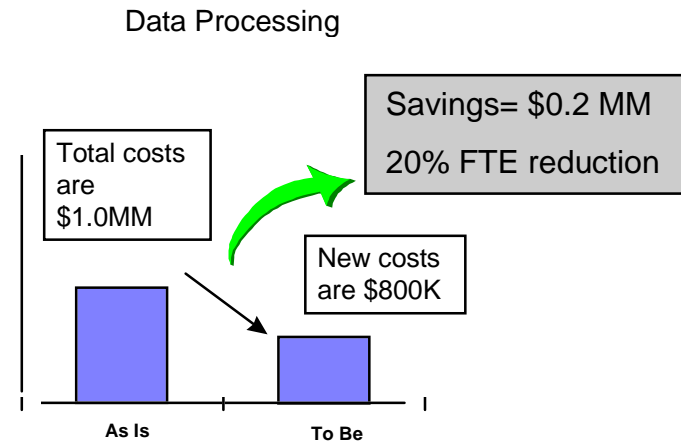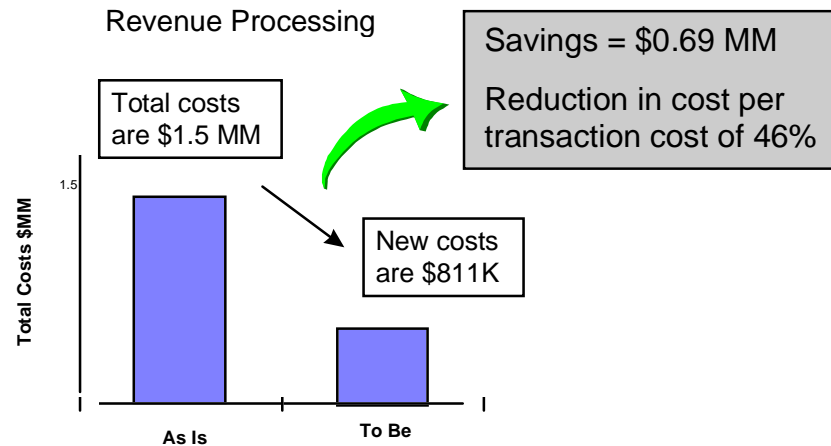
➢ Economic Business Case

➢ Customer Service Business Case

➢ Resource Utilization Business Case

➢ Management Business Case

➢ If The State Could…

➢ Payback Period

➢ Net Present Value

Economic Business Case

Revenue Processing

Total costs are $1.5 MM

Savings = $0.69 MM

Reduction in cost per transaction cost of 46%

New costs are $811K

1.5

Total Costs $MM

As Is   **To Be**

Data Processing

Savings= $0.2 MM

20% FTE reduction

Total costs are $1.0MM

New costs are $800K

As Is   **To Be**

A/R Processing

Total costs are $1.25 MM

Savings= $0.25 MM

20% FTE reduction

New costs are $1.0MM

1.5

Total Costs $MM

As Is   **To Be**

Customer Service

Total costs are unknown

Benefits are largely qualitative, especially better service to payees

New costs are unknown

As Is   **To Be**

Minimum annual savings of $1.14 MM are available through centralization of these processes.

Economic Business Case cont'd

- **Improved Cash Management**

  - avoidance of bad debts through better customer information
  - increased interest earnings from quicker collection of A/R
  - increased collections by offsetting delinquent accounts against new service requests
  - improved cash flow by offsetting accounts receivable against warrants

- **Customer Service Business Case**
  - simplified payment process
  - creates potential for a centralized Customer Service Center (single point of contact)

- **Resource Utilization Business Case**
  - dedicated, specialized staff
  - reduction in required staffing levels
  - space savings
  - offsetting peaks and valleys enable more efficient workforce scheduling
  - higher volumes will justify the use of enabling technologies

- **Management Business Case**
  - timely, accurate and consistent data
  - central repository of remitter data ("data warehouse")
  - better tracking of non-filers
  - improved management decision making tool
  - single process owner enables coordinated management of process improvements, introduction of new technology and possible selection of external service providers

If The State Could...

The economic business case highlighted a number of opportunities for the State to increase revenues through implementation of a centralized revenue and information processing center.

Below are some examples of how the State could generate increased revenues. Each of these scenarios are feasible and could significantly reduce the payback period for implementation of the center.

Potential Savings

…Reduce bad debt write-offs from fy95 by 20%…	$1.0 MM
... Speed up receipt of $200 MM in revenue by 2 days…	$0.1 MM
…Increase collections by offsetting delinquent accounts against new services…	$0.3 MM
…Increase cash flow by offsetting A/R against warrants to be issued...	$0.3 MM
Total	**$1.70MM**

These estimates are conservative and could be much higher depending on how aggressively the State pursues these opportunities.

Payback Period

- Estimated implementation costs $ 3.80 MM

- Estimated minimum annual cost savings $ 1.14 MM

Using the estimated minimum annual cost savings, the payback period is 3.3 years.

- "If the State Could"… increased revenues $1.70 MM

- Estimated minimum annual cost savings $1.14 MM

          Total $2.84 MM

Using the "If the State Could…" increased revenues plus the estimated minimum annual cost savings, the payback period drops to 1.3 years.

Net Present Value

The following NPV calculation assumes a ten year time horizon corresponding to the maturity of the bonds issued to finance this and other capital projects.

- Total implementation cost is $3.8 MM (these costs are incurred in year 1 and year 2)

- Annual savings are $1.14 MM (these savings do not begin until the revenue center is fully implemented at the end of year 2)

- The present value of the annual savings from year 3 to year 10 is $6.4 MM

- The net present value therefore is $6.4 MM - 3.8 MM = **$2.6 MM**

The revenue processing center has a conservative NPV of $2.6 MM